

To: All Members and other interested parties

Ref: 22/168 (LME Notice Reference)

22-040 (LME Clear Circular Reference)

Classification: Trading

Date: 23 June 2022

Subject: **Independent Review Selection – Oliver Wyman**

## Summary

1. Following the notification to the market of the LME and LME Clear's (together the "LME Group") intention to commission an Independent Review into events in the Nickel market leading up to the Nickel market suspension (LME Notice 22/099 and LME Clear Circular 22-022 dated 4 April 2022), the LME Group has been working to identify and select an experienced independent party. After a rigorous process, the LME Group confirms the appointment of independent management consultancy firm Oliver Wyman Limited (to be supported by its sister company, NERA UK Limited) ("**Oliver Wyman**").
2. This Notice sets out further detail on the scope of the Independent Review, as well as outlining the planned engagement with market participants by Oliver Wyman that will inform part of the Independent Review.

## Background

3. On 4 April 2022, the LME Group announced in LME Notice 22/099 and LME Clear Circular 22-022 the intention to commission an independent third party to conduct an Independent Review of the broader events in the Nickel market leading up to the suspension of trading to identify any actions that could be taken by the LME Group to minimise the risk of a similar situation arising in future. These actions are intended to support the long-term health, efficiency and resilience of the market and its constituents. The Independent Review will be undertaken in parallel with the two external reviews announced by the Financial Conduct Authority ("**FCA**") and the Bank of England ("**BoE**") on 4 April 2022.
4. The LME Group completed a rigorous selection process requesting proposals from a number of participants and after thorough analysis, Oliver Wyman was selected. Oliver Wyman is a leading management consultancy firm which demonstrated expertise across the board and on the complex range of topics that the Independent Review will cover.

5. As announced on 4 April (LME Notice 22/099 and LME Clear Circular 22-022) and 17 June (LME Notice 22 161), the LME has already taken two measures to ensure market stability pending the outcome of the Independent Review.
  - (a) The introduction of upper and lower daily price limits for all physically delivered contracts on the LME, providing an extra market stabilisation mechanism.
  - (b) The introduction of OTC position reporting, effective 18 July 2022, which will enhance the LME's visibility of OTC markets.
6. The LME will continue to proactively develop and assess further market structure reform proposals to mitigate the risk of circumstances similar to those leading to the events of 8 March 2022 arising in the future on the LME. Where the LME considers it to be in the interest of the long-term health, efficiency and resilience of the market, the LME may seek to proactively introduce further measures prior to the conclusion of the Independent Review.

### **Scope**

7. The Independent Review will review the factors that contributed to market conditions in the Nickel market in the period leading up to, and including, 8 March 2022 and make recommendations to reduce the likelihood of similar events occurring.
8. For the avoidance of doubt, the Independent Review will not cover the LME and LME Clear's decision-making processes and governance arrangements given these events will be considered as part of the regulatory reviews to be undertaken by the FCA and the BoE.
9. The scope of the review will cover current practices and future recommendations in the following four areas:
  - (a) The LME Group's market structure, including the supporting ecosystem of brokers and regulatory requirements.
  - (b) Trading rules, and trading controls on the LME, including, but not limited to, position management and volatility controls.
  - (c) Physical contract specifications and broader links to the physical market, including stock levels.
  - (d) Risk management policies and practices, clearing model and collateralisation levels of the LME, LME Clear and their Members.
10. The recommendations made will be informed by inputs that shall include:
  - (a) Analysis of trading activity, positions, margin and collateralisation in the Nickel market, including on the LME and the broader OTC market.
  - (b) A detailed review of LME and LME Clear policies, procedures, and practices.

- (c) Industry best practice and competitor analysis with regards to any proposed measures.
- (d) Input from market participants, gathered by market outreach and bilateral interviews, as well as through the analysis of past responses to consultations run by the LME Group<sup>1</sup>.

## Market Engagement

11. To ensure a thorough Independent Review that assesses current practices and proposes future recommendations, involvement from the industry is crucial. This involvement is expected to fall into two broad categories.
  - (a) An extensive engagement exercise to be undertaken by Oliver Wyman, including a broad outreach exercise as well as individual interviews.
  - (b) Using the powers as outlined in the LME's Rulebook, Oliver Wyman (via the LME) will request data to support its analysis.
12. Market participants are reminded that, as part of the Independent Review, the LME and LME Clear may be required to share data relating to on-exchange and OTC activity with Oliver Wyman including, but not limited to, order, trade and position data and information relating to positions, margin and other Member and client position information. The transfer of any data will be subject to strict confidentiality provisions and stringent information security controls.
13. Oliver Wyman and the LME Group are cognisant of the potential burden of work this could place on Members and will be as targeted as possible with any data requests. To ensure the timely publication of the final report, participants are encouraged to provide their feedback and/or data in a timely manner.

## Governance

14. To support the delivery of the Independent Review, the LME Group has established a joint LME and LME Clear Nickel Board Steering Committee ("**Nickel Steering Committee**"). The role of the Nickel Steering Committee, which is a sub-committee to the LME and LME Clear Boards, is to oversee the progress and effective completion of the Independent Review. The Nickel Steering Committee will be supported by a joint LME and LME Clear working group comprising senior members of LME Group staff, managing the day-to-day interaction with Oliver Wyman and reporting to the Nickel Steering Committee.

## Timeline

15. Given the scope and significant external engagement that is required, Oliver Wyman anticipate undertaking the Independent Review throughout the second half of 2022 with the final report anticipated to be published in December 2022. Any changes to this timeline will be communicated to the market.

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<sup>1</sup> Details of how interested stakeholders can provide input will be published on the LME website

**Next steps**

As described in para 11, Oliver Wyman will undertake a market engagement programme as part of the Independent Review. Although a formal exercise will begin in July, LME market participants are invited to register interest in discussing any aspects within scope of the Independent Review, by contacting [LMEnickelreview@oliverwyman.com](mailto:LMEnickelreview@oliverwyman.com).

**Matthew Chamberlain**  
**Chief Executive Officer, LME**

**Adrian Farnham**  
**Chief Executive Officer, LME Clear**

cc: Board directors  
Special Committee  
Nickel Committee  
User Committee